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RUEHCV/AMEMBASSY CARACAS PRIORITY 0407
RUEHME/AMEMBASSY MEXICO PRIORITY 6629
RUEHFR/AMEMBASSY PARIS PRIORITY 0268
RUEHUNV/USMISSION UNVIE VIENNA PRIORITY 0042
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
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S E C R E T SECTION 01 OF 04 TEGUCIGALPA 001375

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STATE FOR EB/ESC, WHA/EPSC, WHA/PPC, AND WHA/CEN
STATE FOR D, E, P, AND WHA
TREASURY FOR JHOEK
STATE PASS AID FOR LAC/CAM
NSC FOR DAN FISK

E.O. 12958: DECL: 08/03/2031

TAGS: [EPET](#) [ENRG](#) [PGOV](#) [PREL](#) [PINR](#) [HO](#)

SUBJECT: HONDURAS: RECA DENIES HE'S BEHIND CARIBBEAN PETROCHEMICAL, BUT SAYS HE IS BUYING DIPPSA

REF: TEGUCIGALPA 1331 AND PREVIOUS

Classified By: AMB Charles Ford for reasons 1.4 (b) and (d)

¶1. (S) Summary: Adrien Reca Salaburu denied he is involved with or in any way related to U.S. firm Caribbean Petrochemical Company -- a firm created in Miami on June 13 and which claimed on July 21 to have purchased DIPPSA. Reca admitted, however, that he continues seeking to purchase DIPPSA, via a company he created named Petrocansa. Reca has promised several times in the past that the DIPPSA deal is "only days" from completion but he has yet to deliver on his bold assertions. Reca also admitted that he has a signed MOU with PDVSA to supply DIPPSA with oil following his purchase of the firm. Reca claims he hopes to forge, through acquisitions, a regional gasoline distribution empire, thus diluting the extreme country risk of investing in Honduras alone, and making DIPPSA an attractive take-over target for the global market. Under other circumstance, perhaps this would merely be a bold business move. In this case, however, there are too many coincidences to be overlooked, coincidences that suggest Reca is backed by and perhaps fronting for PDVSA and possibly the GOV. End Summary.

¶2. (C) Adrien Reca Salaburu (Note: Incorrectly spelled in previous reporting as Adrian Recca. End Note) met with EconChief and EconOff on July 31 to explain his continuing involvement in the Honduran fuel sector. Reca has for several months been maneuvering to arrange an oil import scheme featuring Venezuela's PDVSA, and has long been seeking to purchase Honduran gasoline retailer DIPPSA (reported extensively reftels). The atmospherics of the meeting were relaxed. Reca is a fast talker and a name dropper, and attempts to convince his listener with the volume and velocity of his arguments rather than the logic behind them.

¶3. (C) Reca denied he is involved with or in any way related to U.S. firm Caribbean Petrochemical Company (CPC) -- a firm created in Miami on June 13 and which claimed on July 21 to have purchased DIPPSA. Reca at one point said he had heard

the capital backing that company is from Saudi Arabia, but later intimated that the company might have been invented by DIPPSA President Henry Arevalo himself as a means for pressuring other bidders. (Comment: Most of Caribbean Petrochemical's website has been verified by Post as plagiarized from other industry sites, and Post assumes none of the information contained in it is reliable. The web site repeats claims made to EconChief by the nominal President of CPC, Vicente Martin Hidalgo, that CPC has strong commercial ties with petroleum suppliers in the United Arab Emirates. Post believes this is where the notion that CPC is backed by "Arab" capital derives. Post has seen no evidence supporting such a claim. Hidalgo also told EconChief that CPC is a major importer of LPG into the Dominican Republic. Embassy Santo Domingo has verified, however, that no such company is registered with the GDR, and the name is unknown to sector contacts. It seems likely CPC is a front company, but for whom remains a mystery. End Comment.)

¶4. (C) Reca admitted, however, that he continues seeking to purchase DIPPSA, via a company he created named Petrocansa (Petroleos de Centro America), and of which he is 82 percent owner. The company was capitalized with less than USD 2,000 and for this reason was dismissed as not being a serious bidder by Arevalo (and by Banco Atlantida president Guillermo Bueso, Arevalo's key financial backer). Reca formed Petrocansa as the corporate vehicle for the purchase, and to insulate his other company, Transpetrol, from the deal. Transpetrol, which he said imports natural gas into Honduras under an agreement with ELFTotal, would subsequently merge with Petrocansa following the purchase, and use DIPPSA's existing network of approximately 100 service stations to distribute natural gas also. Reca claims to have signed

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contracts with two large companies specializing in conversion of vehicles to natural gas, and seeks to create a market for this product by converting Honduran taxis and busses to LPG.

¶5. (S) Reca also said that he has a signed MOU with PDVSA to supply DIPPSA with oil following his purchase of the firm. According to Reca, most fuel in Honduras is imported by middlemen (such as Esso Trading) but comes originally from PDVSA refineries in the region, mainly its big Isla refinery in Curacao. By cutting out the middlemen, Reca asserts he can undersell the current market by up to USD 0.25 per gallon (4 to 5 lempiras). Reca claims he is merely days away from completing the purchase, but Post has subsequently heard that he reportedly was recently rejected by Banco Lafise in his first attempt at securing USD 30 million to finance half the purchase. Reca's backup plan involves a Bank in Venezuela -- he mentioned Banco Mercantil; Post has also previously heard mention of Banco Industrial. On how he will source the balance of USD 41 million to complete the purchase Reca was vague, indicating his own pocket, that of his partner Marc Olivier (whom he described as former head of French-language broadcaster Canal Plus), and other associates. (Comment: Reca claimed Arevalo is on board with the deal, an assertion flatly contradicted by Arevalo in his July 29 meetings with Ambassador and EconChief. Reca has promised several times in the past that the DIPPSA deal is "only days" from completion but has yet to deliver on his bold assertions. That said, Arevalo is under great pressure -- both political and financial -- to sell at least a portion of the company, and Post assesses that, if offered what Reca claims will be USD 71 million, backed by a reputable bank, Arevalo might take the deal. End Comment.)

¶6. (C) Reca's alleged plan for DIPPSA is even more audacious than his LPG venture: He hopes to forge, through acquisitions, a regional gasoline distribution empire, thus diluting the extreme country risk of investing in Honduras alone, and making DIPPSA an attractive take-over target for the global market. Reca specifically mentioned planning acquisitions in the next year in the Dominican Republic and El Salvador, with a three-year time horizon that would add

Belize, Guatemala, Nicaragua, and Costa Rica. Reca did not say who his acquisition targets are, but he did repeatedly mention that Royal Dutch-Shell is selling assets throughout the region, as a result of its recent "fraud" regarding improperly booking proven and probably reserves. Asked where the capital for such growth would come from, Reca was again vague, relying on associates and the aforementioned bank loan. In future years, if his aggressive expansion plan bears fruit, he feels that a stock offering is also a possibility.

¶ 7. (S) Asked, "Why PDVSA?" Reca said because they offered him the best price. Were Esso to offer a better price, he said, he would take that deal instead. (Comment: Post doubts this. Reca has been relentless in his courtship of PDVSA, but has not, to Post's knowledge, seriously approached other market suppliers. Reca's choice of PDVSA also closely aligns him with the political goals of certain elements of the GOH, and comes in the wake of what Post assesses to be an abortive GOH attempt to arrange a PetroCaribe deal with Venezuela. While this could be a coincidence of factors, or a businessman riding pre-existing political currents to help advance his venture, Post is alert to a third possibility: Reca could be actively fronting for an expansionist PDVSA strategy in the region. This would explain Reca's source of financing, his reported deal to receive below-market price imports, and his sudden interest in the DR, which is not generally considered part of the Central American market, but where reportedly PDVSA was recently rebuffed in its attempts to buy Shell's refinery. Reca's plans to expand to Nicaragua and El Salvador would also neatly overlap the GOV's desire to expand its influence in those countries, starting with

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PetroCaribe-financed exports to FMLN and FSLN municipalities there. As previously reported, DIPPSA's San Lorenzo port storage facility would be a key infrastructure element in such a plan. End Comment.)

¶ 8. (C) Reca was emphatic in his opposition to the GOH's current plan for an international fuel bid solicitation -- in fact, going so far as to ask EconChief for the Embassy to make common cause with him in blocking the bid process. Reca said that for his plan to work, the fuel pricing formula must remain in place "and exactly as it is." When EconChief noted that the current formula contains numerous bloated margins at every stage of the distribution process, Reca strongly disagreed, only to relent, but justified retaining the margins based on the country-risk of the investment. (Comment: While Post is skeptical on many of Reca's self-serving comments, we believe him on this one. Without the guaranteed margins set out in the formula, DIPPSA could find competing, or even surviving, very difficult. Former owner Jose Lamas understood this, which, he told Post, is one of the reasons he sold out to Henry Arevalo. Arevalo, whether he at first bit off more than he can chew, or simply miscalculated the political dynamics, has now come to the same conclusion. Which leads one to ask why, given DIPPSA's apparently dim prospects and the political turmoil surrounding fuel in Honduras, would anyone want to buy into this market? Reca portrays himself as a visionary entrepreneur, taking risks the major oil companies are unwilling to take. Post wonders if his confidence might not instead be the result of substantial PDVSA backing. End Comment.)

¶ 9. (S) Reca closed his case by saying that if his plan works, he will be able to drop pump prices for gasoline by 4 lempiras or more, thus meeting the GOH's alleged goal for the bid solicitation and, in his view, proving that there is no need for it. With that one gesture, he is confident he can "prove" to the GOH the folly of its plan and get the GOH to abandon it. EconChief countered that the GOH plan is not and likely never really was about economics, but is instead political. The GOH, and President Jose Manuel "Mel" Zelaya Rosales in particular, has painted itself into a corner on

the fuels issue, and cannot at this late stage forego the bid solicitation without suffering terrible political damage. Reca refused to yield on this point, convinced that "the numbers" would make his case and convince Zelaya. (Comment: Post is struck by the apparent political tone-deafness Reca displays on this point. We are thoroughly unconvinced that the poor economic prospects of the bid solicitation will drive Zelaya to cancel the process -- its poor prospects have been known since its inception and have as yet failed to dissuade the GOH. Moreover, should the bid be vacated or simply fail to deliver, we find it unlikely that the pricing formula will remain "just as it is." Some source of savings at the pump will be needed, and the pricing formula is the obvious first place to look. End Comment.) After repeated questioning, Reca showed his hole card, admitting that he believes Zelaya would not victimize DIPPSA as part of any political project, out of respect for Reca's father-in-law (and lifelong Zelaya confidant) Bernardo Casanova.

¶10. (S) Comment: Post finds Reca's analysis of the bid solicitation dynamics to be flawed, suggesting either that he risks making a catastrophic investment blunder, or that he is not being forthright with us. In the latter case, one possible alternative scenario involves DIPPSA agreeing to discount storage terms for PDVSA, allowing that company, through an "ex-tank" bid, to win the import solicitation. Of course, as one of only three owners of significant storage capacity in Honduras, whoever owns DIPPSA would be in a position to make a similar deal with any bidder, perhaps in exchange for terms that would allow DIPPSA to remain competitive under the new import regime.

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¶11. (S) Comment continued: The irony here is that, were he aligned with any other company, Reca's audacious (if perhaps foolish) move might be praised as exactly the kind of innovative thinking and regional focus needed if Honduras is to become competitive in today's globalizing world. At base, Reca's plan is to buy a distressed asset, reorganize it, enlarge it, and sell it at a profit. If that were all there were to it, we'd slap him on the back and wish him well. In this case, however, there are too many coincidences to be overlooked, coincidences that suggest Reca is backed by and perhaps fronting for PDVSA and possibly the GOV. Whether a willful accomplice or not, Reca with his plan could deliver a significant portion of the Honduran market into GOV hands, while also giving Chavez the logistical means he desires to supply oil to leftist mayors in a bid to influence upcoming Nicaraguan elections. In that case, Reca would be less an entrepreneur than a mercenary, supporting the GOV not out of any political affinity, but simply for the profits to be had, with little regard to the consequences for Honduras. End Comment.

¶12. (C) Biographical information: The following supplements biographic information provided in Tegucigalpa 1101. Adrien Reca Salaburu is reportedly a dual French-Argentine national. There is no record of a U.S. visa issued in that name, leading Post to believe he travels on his French passport. His fluent Spanish is Argentinean-accented. Reca reports he is 44 years old, suggesting a year of birth of 1962. He reports he is a graduate of France's prestigious Ecole Nationale de Administration. One of his classmates rose to become one of the senior executives at ELFTotal, explaining Reca's access to that firm. Reca reports his mother is "a colonel" in the French Navy.

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